



**City of Detroit**

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**OFFICE OF THE AUDITOR GENERAL**

**Audit of the  
Detroit Transportation  
Corporation**

**November 2003**

# **Audit of the Detroit Transportation Corporation**

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\*Finding appeared in the prior audit report dated July 23, 1998.



JOSEPH L. HARRIS, CPA, CIA  
AUDITOR GENERAL  
CITY OF DETROIT

COLEMAN A. YOUNG  
MUNICIPAL CENTER  
2 WOODWARD AVENUE, SUITE 208  
DETROIT, MICHIGAN 48226  
PHONE 313•224•3101  
FAX 313•224•4091  
WWW.CI.DETROIT.MI.US

## MEMORANDUM

**DATE:** January 2, 2004  
**TO:** Honorable City Council  
**FROM:** Joseph L. Harris  
Auditor General   
**RE:** Audit of the Detroit Transportation Corporation  
**C:** Mayor Kwame M. Kilpatrick

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Attached for your review is the result of our audit of the Detroit Transportation Corporation.

This report contains our audit purpose, scope, objectives, and methodology; background; findings and recommendations; noteworthy accomplishments, and the Corporation's response.

We appreciate the assistance that we received from the employees of the Detroit Transportation Corporation.

## **AUDIT PURPOSE, SCOPE, OBJECTIVES, AND METHODOLOGY**

### **Audit Purpose**

This audit was performed under the Office of the Auditor General's (OAG) Charter mandate to audit financial transactions of all City agencies. The OAG performed an audit of the adequacy of internal control procedures to properly record transactions of payroll, cash receipts, voucher disbursements, fixed assets, and imprest cash.

### **Audit Scope**

We performed an assessment of the Detroit Transportation Corporation's (DTC) internal control procedures for payroll, cash receipts, voucher disbursements, fixed assets, revenues, and imprest cash, and determined that there are certain weaknesses in the system of internal control. We focused our audit on the weaknesses discovered during the assessment, and the status of the prior audit findings.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external quality review of the Office of the Auditor General within the last three years.

### **Audit Objectives**

Our audit of the DTC had the following objectives:

1. To assess the DTC's internal controls relating to:
  - a. Current financial operations
  - b. Compliance with policies, plans, procedures, laws and regulations
2. To determine whether the DTC has adequate internal accounting controls
3. To determine whether the DTC implemented the prior audit recommendations or otherwise resolved the findings

### **Audit Methodology**

To accomplish the audit objectives, our audit work included the following:

- We reviewed directives, policies, and procedures, and interviewed DTC management and personnel to gain an understanding of the Corporation's internal controls.
- We evaluated internal controls for payroll, cash receipts, voucher disbursements, fixed assets and imprest cash.
- We examined a judgmental sample of transactions that we considered satisfactory to achieve our objectives.

## BACKGROUND

The DTC was established in 1985 by the City of Detroit, pursuant to the Urban Cooperation Act, Act 7 of the 1967 Public Acts of Michigan (Extra Session), as amended, as a component unit of the City to oversee the construction and operation of the Central Automated Transit System (People Mover) in downtown Detroit.

The Detroit People Mover is a fully automated light rail system that operates on an elevated single-track loop in Detroit's central business district.

The Corporation's Budgeted and Actual Revenues, by category, are shown below.

	<u>Fiscal Year 2001-2002</u>	<u>Fiscal Year 2002-2003</u>
<b><u>Budgeted Revenues</u></b>		
Ticket & Token Sales	\$ 615,000	\$ 615,000
FTA Grant	758,750	824,316
Unrealized Gain & Investment Income	80,000	80,000
Misc. Revenue & Rental Income	150,000	1,283,234
City Bond Revenue	0	0
DDA Bond Revenue	0	7,000,000
City General Fund Subsidy	10,805,300	10,805,300
Total Budgeted Revenues	\$ 12,409,050	\$ 20,607,850

<b><u>Actual Revenues</u></b>		
Ticket & Token Sales	\$ 766,995	\$ 425,575
FTA Grant	0	409,770
Unrealized Gain & Investment Income	465,966	1,065,961
Misc. Revenue & Rental Income	634,475	2,176,645
City Bond Revenue	0	1,620,442
DDA Bond Revenue	0	5,000,000
City General Fund Subsidy	11,186,304	11,346,993
Total Actual Revenues	\$ 13,053,740	\$ 22,045,386

City Subsidy as a Percentage Revenues	86%	51%
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Number of Employees:		
Budgeted	117	122
Actual as of July 1	93	91

## **FINDINGS AND RECOMMENDATIONS**

Findings marked with an asterisk (\*) signify that the finding and related recommendation appeared in the Auditor General's previous report. The date shown in parenthesis indicates the audit report in which the recommendation, or part thereof, first appeared.

### **\*1. Reconcile Daily Cash Collection Sheets with Bank Deposits**

(July 23, 1998) Our review of the DTC's faregate revenue reporting system disclosed that periodic reconciliation between faregate revenue, as recorded on Daily Cash Collection Sheets, and bank deposits has not been completed since February 2002. To establish the amount of faregate revenue collected, the DTC has relied on cash counts and bank deposits made by Brink's, without comparing the amount reported to the amount noted on the Daily Cash Collection Sheets completed by transit officers and DTC personnel during the cash box collection process.

DTC management says that it lacks the necessary human resources to implement and perform periodic reconciliations between the internal daily cash collection reports and bank deposits.

Characteristics of an effective revenue reporting system include the ability to accurately report revenue received, reconcile collections to deposits, and substantiate postings from subsidiary reports to consolidated reports.

Relying on cash counts performed by Brink's, and subsequently reconciling to bank deposits made by Brink's, does not provide assurance that front-end internal controls are adequate. The risk of theft, misappropriation, and material misstatement in reporting actual revenues is increased when internal reconciliation between the record of daily cash collections and bank deposits is not performed. If variances between cash collections and bank deposits are not identified, management will not know that there is a problem.

We recommend that the DTC perform reconciliations between Daily Cash Collections Sheets and bank deposits, and forward all faregate collection information from Field Operations to the Accounting Division.

### **\*2. Develop and Implement Formal Data Processing Procedures**

(June 30 1988) The DTC does not have formal data processing procedures that address: electronic data processing (EDP) duties; training; computer security; data input/output; report distribution; and data file backup, retention and recovery.

DTC management says that it lacks the human resources necessary to develop and implement formal data processing procedures. It further stated that it is in the process of retaining a consultant to document and develop formal data processing procedures.



The development and implementation of formal written data processing procedures will enhance the overall integrity of the Corporation's data processing activities and ensure control over EDP equipment.

The lack of written procedures lessens control over the following areas: the security and accuracy of computerized information; the completeness of data input, processing, and output; and the EDP equipment itself.

We recommend that the DTC develop and implement formal data processing procedures that establish internal and operational control over its data processing activities, and security over its data processing equipment.

### **3. Establish Physical Controls over Disbursement Checks**

Our examination revealed that twenty percent of disbursement checks sampled was lost before reaching their intended destinations, and "stop payments" on missing checks have been ordered on a regular basis. The Accounting Manager noted that the lost and/or missing checks began occurring in the last year. The Accounting Manager indicated that some checks continue to be lost while en route to be signed by the Interim Director of the Detroit Department of Transportation (DDOT) and some have been lost in the U.S. mail.

The Disbursements Clerk indicated that checks are lost because they are generated weeks in advance of when they are to be mailed.

A good system of internal control includes the safeguarding of assets against unauthorized or improper use. The safeguarding of assets includes proper handling and retention of important documents.

Negative consequences that could result when checks are lost and stop payments are ordered include: stolen checks that are cashed before stop payments are issued; vendor late charges; vendor ill will; and the loss of valued vendors.

The OAG recommends that the DTC develop disbursement check handling procedures to eliminate lost and misplaced checks.

### **4. Establish Year-End Closing Schedule to Meet City Finance Department Deadline**

It was noted during our examination that the year-end financial reports and budget are not submitted to the City's Finance Department on time. The DTC has not developed a formal year-end closing timeline that identifies the timing of the completion of tasks necessary to submit its year-end reports on time.

The DTC operates as a separate legal entity from the City, and therefore is not subject to the same year-end closing and reporting requirements as City agencies. However, as most of its funding comes from City grants, the DTC is considered to be a component unit of the City and is obligated to submit financial statements to the City's Finance

Department, including an income statement, balance sheet, statement of cash flows, and budget, for inclusion in the City's Comprehensive Annual Financial Reports.

The effect of the DTC not completing its financial activity by the City's deadline is to delay the City's Finance Department from meeting its year-end financial reporting goals.

We recommend that the DTC develop and implement a closing schedule for its year-end financial activity that will meet the deadline date set forth by the City's Finance Department.

## **5. Implement and Enforce Cash Box Exchange Procedures**

During our examination of internal controls over faregate cashbox exchanges, we noted that transit supervision is not following the DTC's guidelines for exchanging faregate cashboxes. Occasionally, transit officers are required to make faregate cashbox exchanges in addition to the scheduled exchanges performed by Brink's. Transit officers record the cash collected on Daily Cash Collection Sheets, and the actual exchange of the cashbox is monitored via electronic indicators and cameras at the control center. DTC guidelines state "Both the supervisor and the transit officer travel to the faregate. Upon arrival, they look at all faregates and vending machines because problems with high patron use or vandalism often affect more than one unit." However, transit officers perform these exchanges independently, without a second party present, and the full cash boxes are transported back to the DTC control center in the trunk of the transit officer's vehicle.

DTC management has developed an operating procedure for transit officer cashbox exchanges, but the procedure has not been communicated or implemented.

Fundamental aspects of good internal controls over cash receipts require that management establish policy and procedures that include control procedures to safeguard assets. Management should insure that individuals involved in the process adhere to the documented policies and procedures.

The practice of individual transit officers collecting faregate cash boxes increases the risk of cash being stolen or misappropriated.

We recommend that the DTC communicate and enforce existing procedures regarding exchanges of full cash boxes.



## **NOTEWORTHY ACCOMPLISHMENT**

### **1. Technological Enhancement - Time and Labor Management**

During the OAG's examination of payroll internal controls, it was noted that the DTC has implemented a new system to track, report, and process payroll accurately and efficiently.

Each time an employee punches in or out, DTC's new ADP HandPunch positively verifies who he/she is, by the unique size and shape of his/her hand. This system eliminates all "buddy punching". Further, the ADP HandPunch communicates by modem directly to the payroll PC making it simple to update the payroll status of each employee every day.

The implementation of ADP's HandPunch system is a significant improvement in time and labor management at the DTC. It is a technological enhancement noteworthy for consideration by all City agencies.



December 23, 2003

## ATTACHMENT A

Mr. Joseph L. Harris  
Auditor General  
Office of the Auditor General  
2 Woodward Avenue  
Coleman A. Young Municipal Center, Room 208  
Detroit, Michigan 48226

Dear Mr. Harris:

The following presents the Detroit Transportation Corporation's response for the indicated findings and related recommendations in the November 20, 2003 financial audit of the Detroit Transportation Corporation (DTC), as prepared by the Office of the Auditor General.

### Finding No. 1. Reconcile Daily Cash Collection Sheets with Bank Deposits

We recommend that the DTC perform reconciliation's between Daily Cash Collections Sheets and bank deposits. In addition, the DTC should ensure that all faregate revenue information for report generation is forwarded to its Accounting Division from Field Operations.

### DTC Response

The task of reconciling fare gate revenue collection reports with bank deposits has been assigned to DTC's staff Accountant. The fare gate collection reports are reconciled to the Token Sorter receipts and bank deposit slips from funds deposited by Brinks, Inc. on behalf of DTC. Fare gate collection reports from Field Operations personnel are always forwarded to the Assistant Manager of Accounting no later than the next business day when such collections were done after normal business hours. The reconciliation reports are then reviewed and approved by the Manager of Accounting Administration.

### Finding No. 2. Develop and Implement Formal Data Processing Procedure

We recommend that the DTC develop and implement formal data processing procedures that establish internal and operational control over its data processing activities, and security over its data processing equipment.

#### DTC Response

The DTC has procedures in place for processing data in three main areas: Accounting, Payroll and Purchasing. DTC's procedures fosters internal control over accumulation and processing of accounting data in compliance with general auditing requirements and GAAP. Those procedures include approval procedure for Check Requests, A/P and G/L edit reports from electronically processed data which are reviewed and approved by the Assistant Manager of Accounting before being posted to the general ledger.

DTC has procedures in place for processing employee payroll records utilizing ADP's PC Payroll and HR Perspective software. There are restrictions of access to various sections of the Human Resources software for reason of internal control over confidential data. Processes initiated from the HR division flow automatically to payroll and generates a notification via an Inbox, which must be processed by payroll before any payroll could be completed and transmitted.

The DTC utilizes PMC, (Preventive Maintenance Control software), to perform its scheduled maintenance, inventory control, and purchasing activities. The procedures for utilizing the systems cover four units of DTC: Stores, Receiving, Maintenance, Purchasing and Accounts Payable. The procedures cover origination of requisition through online signatures with approval of authorizing managers and the General Manager. No requisition could be completed without four online signatures with the aid of an electronic signature plate. Access is restricted to certain areas of the software for internal control purposes.

#### Finding No. 3. Established Physical Controls over Disbursement Checks

The OAG recommends that the DTC develop disbursements check-handling procedures to eliminate lost and misplaced checks. Checks should be hand delivered to and from the person signing the checks, or the authorizing signature should be obtained on DTC premises to eliminate sending unsigned checks through the mail.

#### DTC Response

Procedures have been established by DTC and directives issued to accounts payable personnel to ensure that checks are properly handled. A cash requirements report is generated from which a selection is made and followed by a check preview report. These reports are reviewed and approved by the Accounting Manager before being forwarded to the General for signatures. This directive took effect in November 2003. All checks are signed on premises and returned to the Manager of Accounting for immediate dispatch to payees.

Finding No. 4. Established Year-End Closing Schedule to Meet City Finance Department Deadline

We recommend that the DTC develop and implement a closing schedule for its year-end financial activity that will meet the deadline set forth by the City's Finance Department.

DTC Response

DTC will implement a closing schedule beginning on June 1<sup>st</sup> of each fiscal year through July 31 of the next fiscal year to finalize the books and records of DTC to meet deadlines set forth by the City's Finance Department

Finding No. 5. Implement and Enforce Cash Box Exchange Procedures

We recommend that the DTC communicate and enforce existing procedures regarding exchanges of full cash boxes.

DTC Response

DTC will communicate and enforce the cashbox exchange procedure to all staff concerned in the Accounting and Field Operations Divisions.

Sincerely,



Claryce Gibbons-Allen  
General Manager

cc: Ademola Balogun  
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